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Advisors affiliated with broker-dealers most likely to leave
By Rob Burgess
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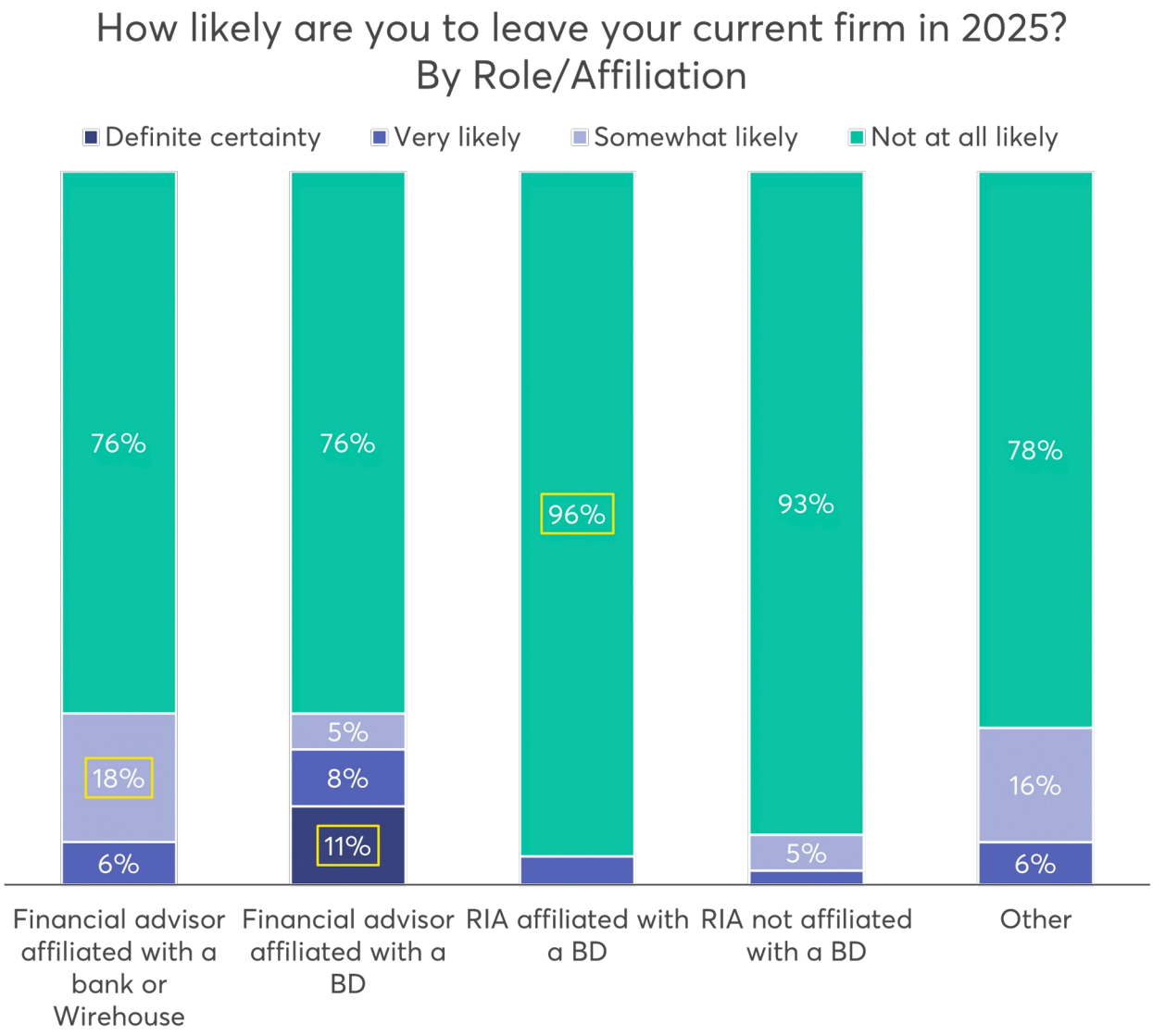
Financial advisors affiliated with a broker-dealer are far more likely than other advisors to say they will definitely leave their firm this year.

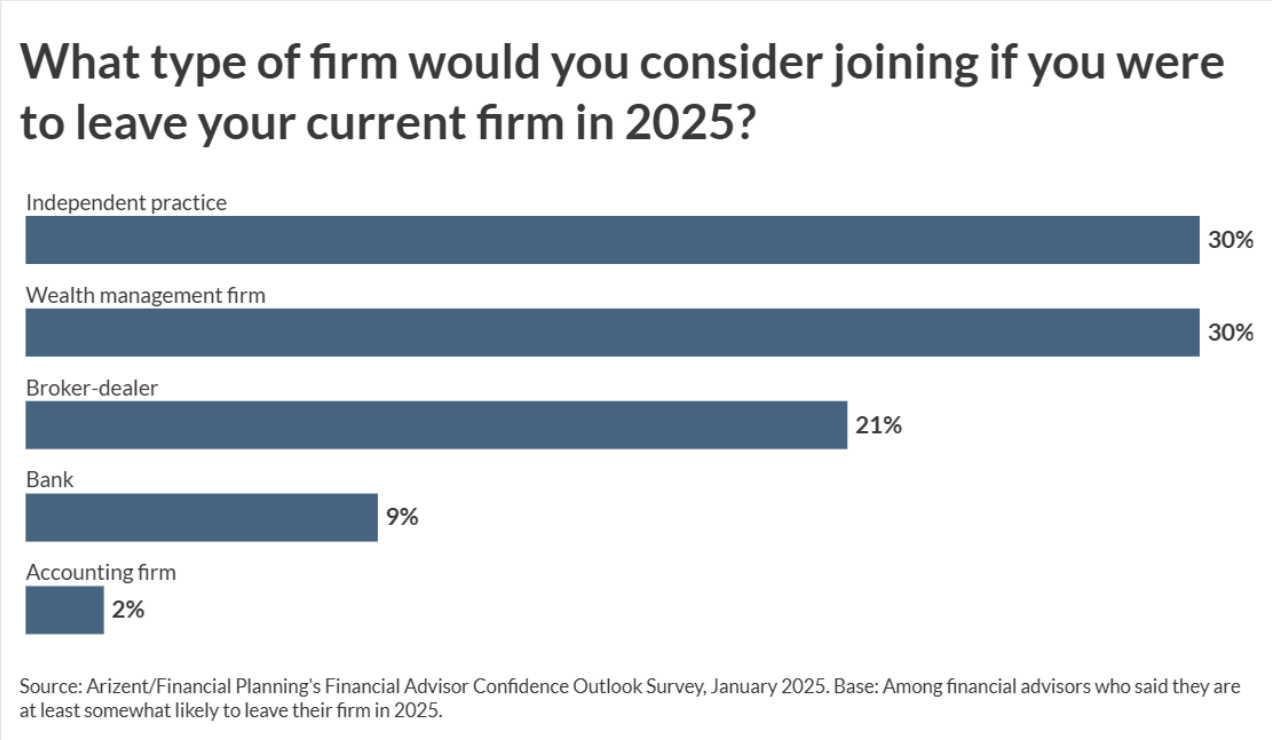
That was among the findings in this month's Financial Advisor Confidence Outlook (FACO), a survey of advisors and planners by Financial Planning. Among other queries, January's survey asked 259 advisors, "How likely are you to leave your current firm in 2025?" Of those who responded, 82% said they were not at all likely to leave, 8% were somewhat likely, 6% said they were very likely to leave and 4% said leaving was a definite certainty.

That "definite certainty" rose significantly when looking at advisors affiliated with broker-dealers. Broken down by role and affiliation, 11% of advisors at broker-dealers said they would definitely leave their firm in 2025; an additional 8% said it was very likely they'd leave this year, with 5% saying it was somewhat likely.



Source: Arizent Financial Advisor Confidence Outlook Survey January 2025
How likely are you to leave your current firm in 2025?
Base: 259 Financial Advisors; By Role/Affiliation: Financial advisor affiliated with a bank or Wirehouse: n=51, Financial advisor affiliated with a BD: n=95, RIA affiliated with a BD: n=23, RIA not affiliated with a BD: n=58, Other: n=32
Boxes indicate differences of statistical significance at the 95% confidence level between the highest and lowest values in the group

When asked what type of firm respondents would consider joining if they were to leave their current firm in 2025, independent practice and wealth management firms were the top two answers, with 30% each.


What type of firm would you consider joining if you were to leave your current firm in 2025?
Independent practice
30%
Wealth management firm
30%
Broker-dealer
21%
Bank
9%
Accounting firm
2%
Source: Arizent/Financial Planning's Financial Advisor Confidence Outlook Survey, January 2025. Base: Among financial advisors who said they are at least somewhat likely to leave their firm in 2025.

Those results reflect what many in the industry are seeing in wealth management today, as advisors seek greater freedom as well as alternate compensation models.

Advisors at broker-dealers, even if they are independent, are still subject to firm policies and changes, said recruiter Mark Elzweig of the Mark Elzweig Company.

"That's especially true for wirehouse advisors," he said. "Payouts and growth incentives are routinely tweaked at year-end. … Broker-dealers that don't monkey with their payout grids on a yearly basis and those that offer advisors choice of business models … typically have less turnover."

Elzweig said owners of independent RIAs don't have to deal with shifting firm goalposts.

"Many advisors who work for large RIAs are essentially client service people," he said. "Even if they generate some of their own business, the investment program and menu of services is run by the house. They often don't have transportable books of business that can be moved elsewhere."

Lack of freedom can drive advisors to leave

Daniel E. Milks, co-founder and operations officer of Woodmark Wealth Management in Greenville, South Carolina, said the survey's findings align with his experience in the industry.

"It seems like advisors affiliated with broker-dealers are more likely to leave because of the constraints that come with their affiliations — limitations on how they can run their business, conflicts of interest and pressure to meet sales quotas," he said. "These factors make it harder to truly prioritize the best interests of clients, which is something a lot of advisors struggle with."

By contrast, Milks said many independent registered investment advisors have more control over their practices, which gives them greater freedom to focus on what's best for their clients and their firms.

"This freedom is a huge draw," he said. "To convince advisors at broker-dealers to stay, firms would need to take a long, hard look at the culture they've created. If they really want to retain their talent, broker-dealers should work on creating a more client-centric model that allows advisors to act in the best interest of their clients without being tied to sales-based goals. However, it's hard to see that happening with the current structure of many broker-dealers."

John Chatmas, CEO of Waterloo Capital in Austin, Texas, said most of his days are spent talking to and recruiting advisors. Many potential recruits who are currently at a broker-dealer say they are dissatisfied with the available investment options and support.

"Conversely, the advisors I speak to at a rival RIA are generally content, and it's a different kind of discussion focused on why they should choose our company instead of a broader broker-dealer versus RIA discussion," he said.

A broken business model?

With a broker-dealer, Chatmas said the compensation to the advisor is far too low. Many advisers grow their practice to a point and realize that it doesn't cost $500,000 and above for an office and a support system, he said.

David W. Demming, founder and president of Demming Financial Services in Aurora, Ohio, said for the first 33 of his firm's 46 years, it was with independent broker-dealers.

"We have been unaffiliated since and now save our clients over $1.25 million of annual costs, aside from not sharing our fees with anyone," he said.

In addition, in his experience, Chatmas said broker-dealers are more concerned about the risk to the firm and do not allow their advisors to invest heavily in alternative investments.

"The investment options I've seen are generally poor and very expensive for the client," he said.

Chatmas said many advisors do not understand the complexity of certain alternative investments, which is one of the reasons broker-dealers restrict the options that are available.

"Opening up available options would create a compliance risk to the firm if they have advisors recommending certain investments that they perhaps do not fully understand," he said.

On the compensation side, Chatmas said he always thought it was a broken business model "to give an advisor financial incentives to join your firm but when the contract was up there were no financial incentives to stay."

"This causes some advisors to jump firms each time their contract is up," he said. "I would pay them to come and then pay them to stay."